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CITY OF RIALTO
Single Audit Report
June 30, 2009

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Single Audit Report
June 30, 2009

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WALNUT CREEK

LOS ANGELES

SAN MARCOS

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The Honorable City Council
of the City of Rialto, California

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rialto, California (City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 22, 2010. Our report included an explanatory paragraph describing the implementation of a new accounting standard. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency 2009-01 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above, we consider item 2009-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated February 22, 2010.

This report is intended solely for the information and use of the City Council, management and others within the City's, and the City's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

February 22, 2010



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The Honorable City Council
of the City of Rialto, California

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program, Internal Control Over
Compliance and on the Schedule of Expenditures of Federal
Awards in Accordance with OMB Circular A-133**

Compliance

We have audited the compliance of the City of Rialto (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2009, and have issued our report thereon dated February 22, 2010. Our report included an explanatory paragraph describing the implementation of a new accounting standard. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and others within the City, and the City's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

February 22, 2010

CITY OF RIALTO
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor Program Title	CFDA Number	Pass-through Entity Identifying Number/ Grant Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant	14.218	B-07-MC-06-0571	\$ 1,180,368
Neighborhood Stabilization Program	14.256	B-08-MN-06-0518	110,228
Cluster total			<u>1,290,596</u> *
Total U.S. Department of Housing and Urban Development			<u>1,290,596</u>
<u>U.S. Department of Justice</u>			
Direct Programs:			
Justice Assistance Grant	16.592	2008-DJ-BX-0332	27,837
COPS School Safety 2004 Congressional Earmark Funds - PAL	16.710	2004-CKWX-0296	<u>12,225</u>
Total U.S. Department of Justice			<u>40,062</u>
<u>U.S. Department of Transportation</u>			
Pass-through the California Office of Traffic Safety:			
Sobriety Checkpoint Mini Grant	20.600	SC08342	10,164
DUI Enforcement Grant 2008-09	20.600	AL0986	89,878
Click It or Ticket Grant 2008-09	20.600	CT09342	<u>29,930</u>
Total U.S. Department of Transportation			<u>129,972</u>
<u>U.S. Department of Homeland Security</u>			
Pass-through the State Office of Emergency Services:			
Homeland Security 2007	97.067	2004-57	56,305
Fire Act 2007	97.044	EMW-207-FO-07094	<u>157,923</u>
Total U.S. Department of Homeland Security			<u>214,228</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,674,858</u></u>

* Includes American Recovery and Reinvestment Act Awards

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF RIALTO
Notes to Schedule of Expenditures of Federal Awards
June 30, 2009

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the City of Rialto, California (the City). The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position of the City.

The accompanying Schedule is presented on the modified-accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) Subrecipients

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title Provided</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 216,297

(3) Section 108 Loans

The City entered into a Section 108 loan for \$3,060,000 during the fiscal year ended June 30, 2003. Semi-annual payments on the Sections 108 loan are made from interest earned on the restricted loan investments and/or from Community Development Block Grant funds, and are included in the federal expenditures for the Community Development Block Grant on the Schedule. Principal and interest payments on this loan totaled \$249,940 for the year ended June 30, 2009, which was paid from Community Development Block Grant funds. As of June 2009, there is \$168,195 of unspent Section 108 loan proceeds remaining. The balance outstanding on the loan payable is \$2,512,000 as of June 30, 2009.

CITY OF RIALTO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I – Summary of Auditor’s Results

Financial statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	No
• Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	No

Identification of major programs:

CFDA No Cluster. 14.218/14.256	Community Development Block Grant/ Neighborhood Stabilization Program
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Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

CITY OF RIALTO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section II – Financial Statement Findings

2009-01 Financial Reporting and Year-End Close Procedures

Comment

During the performance of our audit procedures we identified the need for numerous adjustments relating to the following -- prepaid expenses, accrued liabilities, deferred revenues, long-term liabilities, and beginning fund balance. The number of the adjustments resulted from deficiencies in the City's internal controls over financial reporting and the year-end close process. The magnitude as well as the number of the adjustments resulted in this being noted as a material weakness.

Recommendation

We recommend that the City develop and document a year-end close process policy that encompasses all facets of financial reporting. We further recommend the City incorporate into the policy the review of year-end account balances and perform reconciliations on account balances prior to completion of the year-end processing and before the commencement of the audit to ensure proper financial reporting. The City should not rely on the external auditors to perform the account reconciliations or variance analysis.

Management Response

Staff has reviewed the audit findings and has examined the circumstances and conditions that caused these weaknesses. The primary circumstance was changes in year end procedures to achieve a more compacted audit preparation timeline. The City concurs with the recommendation and will improve the documentation and review of year end processes.

Section III – Federal Award Findings and Questioned Costs

None

CITY OF RIALTO
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2009

There were no prior audit findings.

